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THE MAGAZINE FOR MAGAZINE MANAGEMENT

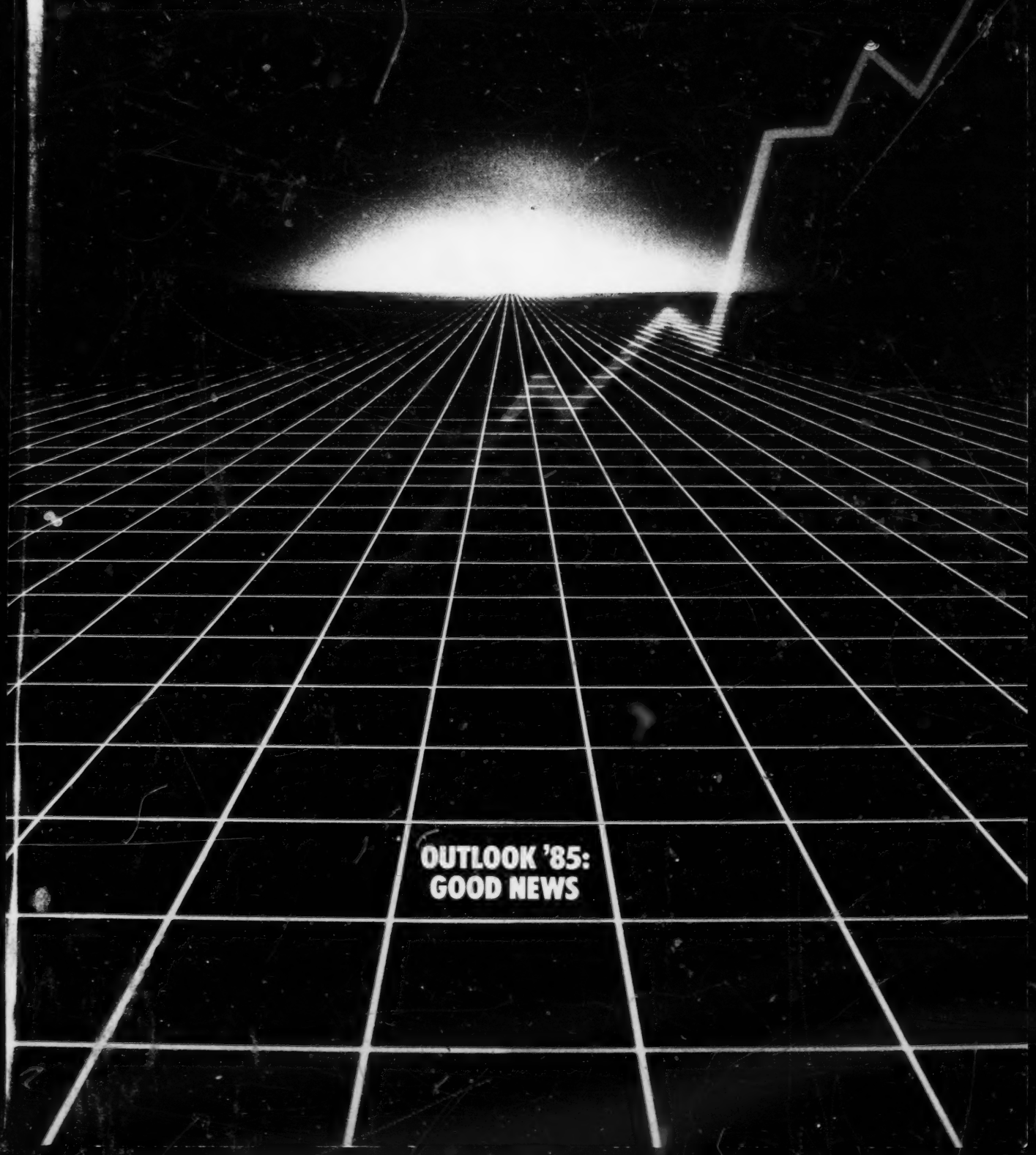
The paper chase

Danger! Confidential sources

The resurgence of print advertising

Cashing in on giveaways

Designer Awards, Part 2



OUTLOOK '85: GOOD NEWS

DECEMBER 1984 VOL. 13 NO. 12

Folio:

THE MAGAZINE FOR MAGAZINE MANAGEMENT

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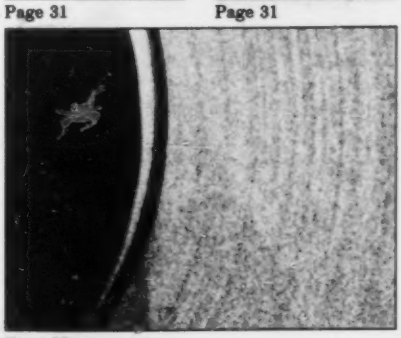

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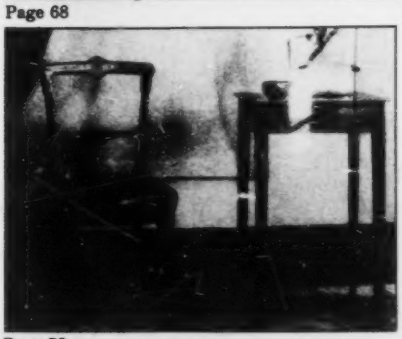

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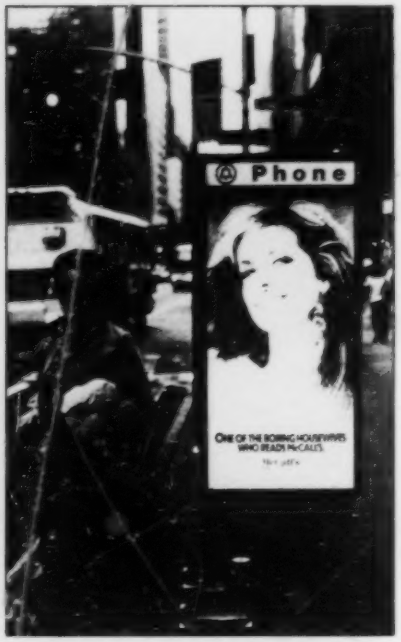


PHOTO BY WALTER CARLSON

Phone kiosk at the corner of Madison Avenue and 42nd Street is illuminated with likeness of Carly Simon. Among other agencies in the area, Young & Rubicam is around the corner.

McCall's has phone link to top NYC ad agencies

New York City—As part of a new trade advertising campaign, *McCall's* has established a phone link with the major advertising agencies in mid-town Manhattan. It's not a hot line—it's Phone Kiosk Advertising, and the magazine has the agencies surrounded.

Eighty-three outdoor phone booths from 35th to 57th Street between First and Eighth Avenues are on the media schedule as part of the new campaign with the theme line, "*McCall's*. More Than the Expected." Also outdoors, the magazine is using TDI displays in train stations in the ad industry's bedroom communities in the metropolitan area.

In print, ads began appearing October 15 in *The New York Times* and *Advertising Age*, followed by ads in *Adweek, Ad Forum, Marketing & Media Decisions* and *People Weekly* (New York and Chicago). Ten-second TV spots also are being used.

The theme line is being supported, somewhat audaciously, with photos of Tina Turner, Cher, Carly Simon and Diane Von Furstenberg, with such headlines as, "One of the boring housewives who reads *McCall's*," with Carly Simon, and "One of those drab homebodies who reads *McCall's*," with Tina Turner. Levine, Huntley, Schmidt & Beaver is the agency.

Closing industrial sale takes average 5.5 calls

New York City—In its continuing research on sales calls versus advertising, McGraw-Hill's Laboratory of Advertising Performance found that the average number of calls needed to close an industrial sale rose to 5.5 in 1983, an 8 percent increase from 1981 and a 28 percent increase from 1979, the year the figure was first tracked.

The average cost of closing an industrial sale rose from $589.18 in 1979, to $907.80 in 1981 and to $1,129.70 last year.

The average number of calls needed to close a sale varied from industry to industry, as well as by method of distribution, the studies found. To close a direct sale to the industry, an average of 7.0 calls was needed, whereas a sale through distributors required an average of 3.9—the combination of both being 5.5.

By method of distribution, the average cost of a single sales call was $233.70 for those selling direct to the industry, $188.20 through distributors, agents and dealers, and $200.00 for those selling through both. The average cost of an industrial sales call in 1983 reached an all-time high of $205.40.

On the other hand, the cost to reach a prospect through advertising in business publications was found to be 18 cents, up a penny every other year since 1979.

MPA provides members ammunition in selling 'often slow' 1st quarter

New York City—In a memorandum to chief executive officers, publishers and advertising directors of member publications, the Magazine Publishers Association (MPA) provided advance "ammunition" to sell the first quarter, which "is often a slow period," it says.

"In the knowledge that the television industry sells the first quarter hard (reduced rates, less clutter, etc.)," the memo says, magazines should keep in mind that reading and circulation are at their highest during this period.

MPA cites 1984 data from Mediamark Research Inc., indicating that reading peaks at 6 percent above the average during the winter—December through March.

Also cited were ABC-audited net paid figures for the top 50 magazines in ad revenue in 1983 to show that circulation peaked at 10 percent above the average in December, but also was 4 percent above the average in January.

For mail order response, the first quarter was found to be, by far, the most productive period, with January and February the best two months.

In addition, MPA gets in a plug for its own advertising campaign and the results of its "Changing Channels" study, showing magazine reading remaining strong as TV network shares erode.

Average number of calls and cost to close an industrial sale in 1981 and 1983

	Number of calls to close a sale		Average cost of the sale	
	1981 %	1983 %	1981 $	1983 $
1 Call	3.8	6.1	178.00	205.40
2 Calls	7.3	8.4	356.00	410.80
3 Calls	25.0	24.4	534.00	616.20
4 Calls	22.0	22.3	712.00	821.60
5 Calls	15.9	12.4	890.00	1,027.00
6 Calls	8.4	9.4	1,068.00	1,232.40
7 Calls	1.6	2.5	1,246.00	1,437.80
8 Calls	3.8	3.2	1,424.00	1,643.20
9 Calls	0.5	0.8	1,602.00	1,848.60
10 Calls	3.5	3.2	1,780.00	2,054.00
11+ Calls	6.9	7.4	2,670.00	3,118.35
Mean	5.1	5.5	907.80	1,129.70

Source: McGraw-Hill Research

The average number of calls to close an industrial sale continued its upward trend in 1983 to 5.5 (left), an increase of 8 percent from 1981. (Average cost of sale is average cost of a call times number needed to close.)

utor specializing in literary, art and other upscale special interest magazines, mailed the questionnaire on magazine sales and trends to 3,400 of its retail clients. Of those, 400, or about 12 percent, responded. The participants, which carry general interest titles also and are serviced by other wholesalers, were mainly book stores and newsstand retailers; the retailers do not include supermarkets.

The survey found the following:

•In the past two years, 77.2 percent of the respondents increased the number of magazine titles carried in their store; 16.5 percent had no change; 6.3 percent decreased the number of titles carried.

•In the next two years, 53.1 percent plan to increase the number of titles they carry; 41.5 percent will make no change; and 5.4 percent plan to decrease the number of titles.

•33.8 percent of the respondents stated that magazines contribute 20 percent or more to their store's annual dollar volume and 23.6 percent stated that magazines contribute 20 percent or more to profit.

•79.6 percent saw an increase in their magazine dollar sales volume in the past two years; 14.9 percent saw no change; 5.5 percent saw a decrease.

•In the next two years, 61.2 percent anticipate magazines contributing more dollar volume to their stores; 35.2 percent see no change in contribution; and 3.6 percent anticipate a decrease.

•35.5 percent of the respondents would consider handling magazines on a non-returnable basis if, say, the store's discount was 50 percent.

•Although 52.5 percent of the respondents devoted 5 percent or less of their selling space to magazines, 52.3 percent stated that magazines contribute more than 5 percent to their store's profits.

Safeway exec fingers racks 'clogged' by annuals in urging better data

San Francisco—This conversation between Canada Safeway's president and a local wholesaler took place recently as the executive examined a magazine rack overstocked with expensive annuals at a newly opened Safeway store:

Question: Why do we have so many copies of these expensive magazines and we're sold out of the best sellers?

Answer: These are just "fillers." We had to fill the rack with something.

Question: Will these quantities sell?

Answer: No, probably not.

Question: When do you plan to pick up the surplus?

Answer: I don't know. When they're called in, I guess!

The exchange illustrates the inadequate sales information and inventory control provided by most magazine and paperback wholesalers, Tim Hopkins, division manager, variety merchandising for Safeway stores, remarked to his audience at the Pacific Coast Independent Magazine Wholesalers Association convention.

Annuals, quarterlies and one-shots are allowed to clog the racks instead of being removed when their profitable selling period has elapsed, Hopkins charged. These slow-selling expensive magazines tie up a disproportionately large chunk of inventory dollars.

"We believe too much of the rack

Top 10 American magazines in annual foreign single-copy sales

Playboy led all other United States-based magazines in foreign single-copy sales with annual foreign receipts of approximately $8,256,528, according to the recently released *Boarts' Report of Overseas Sales of American Magazines*, a study that was based on the December 31, 1983 Audit Bureau of Circulations (ABC) report. *Penthouse* placed second.

In the earlier Boarts' report, based on the June 30, 1983 ABC audit, *Penthouse* placed first while *Playboy* ranked second. *Penthouse*' foreign receipts increased by $755,640 in the latest report, but *Playboy*'s receipts jumped by $1,772,604.

Boarts' foreign sales reports do not include sales in Canada. The New York-based international distributor arrived at total foreign sales figures by multiplying each magazine's foreign sales of its ABC-reported issues by each magazine's annual frequency and by its cover price. The latest report analyzed 228 publications. Publications chosen for study are not limited to those distributed by Boarts.

Among the newcomers to the latest top 10 listing was *National Geographic*, which took third place. It earned annual foreign receipts of $1,986,724 after just entering the foreign single-copy sales market.

Magazine	Annual foreign sales in dollars*	Foreign copies* (ABC-reported issues)	U.S. copies (ABC-reported issues)*	Foreign copies as a % of U.S. copies	Cover price and annual frequency
1. *Playboy*	$8,256,528	229,348	2,366,434	9.6%	$3.00 12
2. *Penthouse*	7,956,000	221,000	2,923,684	7.5	23.00 12
3. *National Geographic*	1,986,724	87,137	2,486	3,505.1	1.90 12
4. *Playgirl***	1,451,258	40,996	408,450	10.0	2.95 12
5. *Hustler*	1,437,828	34,234	1,033,070	3.3	3.50 12
6. *Vogue*	1,223,064	33,974	779,137	4.3	3.00 12
7. *Muscle & Fitness*	1,170,076	33,053	275,821	11.9	2.95 12
8. *Architectural Digest*	1,121,364	20,766	72,025	28.8	4.50 12
9. *Easyriders*	1,064,280	44,345	285,516	15.5	2.00 12
10. *Jet*	1,054,300	16,220	196,164	8.2	1.25 52

* Excludes Canada. Includes U.S. possessions, military
** Figures supplied by publisher
Source: Boarts International, Inc.

toward membership eligibility.

The 20 percent rule had made it difficult for some small publishers to serve enough promotion copies to prospective advertisers and their agencies and to potential subscribers, explained Tom Cory, manager of ABC's business publications comparability program. The rule change will eliminate those problems, he said. Non-qualified circulation will continue to go uncounted toward eligibility. The change was effective immediately.

A second ABC rule change involved business publishers with paid and non-paid subscribers who wish to mail special issues only to their paid subscribers. Under the old rule, publishers wishing to qualify new non-paid subscribers had to first serve those readers with six consecutive issues. A publisher mailing a special issue only to paid subscribers broke the consecutive issue stream to non-paid subscribers, and therefore ran afoul of the qualification rule.

The rule change means that only regular issues are counted toward the non-paid qualification requirements. Special issue circulation will be reported separately on circulation statements, rather than being lumped into average circulation figures.

Seven magazines overstate circulation by 2 percent or more

Of the magazines whose Audit Bureau of Circulations (ABC) audit reports were released during the third quarter of 1984, seven overestimated their circulations by at least 2 percent, according to ABC officials.

ABC compares magazine audits with publisher's statements, and lists instances where the difference is at least 2 percent either way.

In-Fisherman was found to have overestimated its circulation by the highest percentage (9.98 percent) of the seven magazines. No publications were found to have underestimated their circulation by more than 2 percent.

Magazine	Audit period	Total paid publisher's statements	Total paid audit report	Difference	Percentage difference
*Daytimers	12/31/82	113,889	108,689	—5,200	—4.57%
D.C. Comics Group	6/30/83	3,310,203	3,207,448	—102,755	—3.10
Houston Business Journal	12/31/83	16,241	15,858	—383	—2.36
In-Fisherman	6/30/83	157,723	141,989	—15,734	—9.98
Right On	6/30/83	156,071	150,747	—5,324	—3.41
Saturday Evening Post	6/30/83	719,118	704,434	—14,684	—2.04
Texas Homes	6/30/83	82,522	80,635	—1,887	—2.29

*Termination audit.
Source: Audit Bureau of Circulations

Business Week expects easier problem-solving with new database

New York City—McGraw-Hill Inc. hopes to succeed this month with a full conversion of *Business Week*'s in-house fulfillment operations to a database management system (DBMS). A primary benefit of the new system will be added flexibility in using fulfillment data to solve circulation and advertising problems, explains Ken Graham, circulation director.

The new system, whose foundation is the IDMS software package supplied by Cullinet, will overcome some of the limitations in *Business Week*'s current fulfillment system, Graham said. That system is 15 years old and, although computerized, was not set up as a DBMS.

The inflexibility of the old computer programs has made it difficult for the circulation department to manipulate subscriber lists based on different variables, Graham said. For example, it has been cumbersome to mail and track renewal promotions based on the source of an original subscription, to promote "renewals at birth," or to upgrade subscribers to full-price or longer-term subscriptions. The processing of group sales has also been difficult, Graham said.

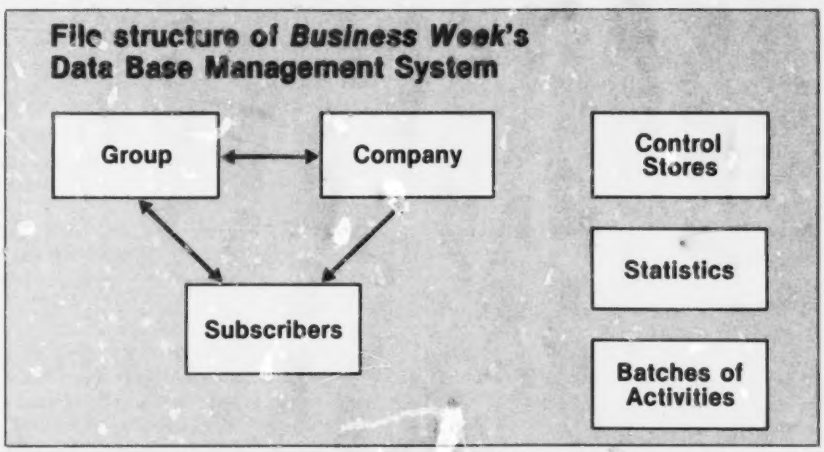
"The old programs were getting harder and harder to change," he observed. "There came a point where it was easier and less expensive to build a new system than to change the old." He noted that the problems could have been solved without going to a DBMS, but the DBMS will solve many of the problems and bring greater capability to the magazine's fulfillment operations.

The new system stores fulfillment data in three linked computer files: the subscriber, company and group files. Included under the subscriber's name is that person's address, title, company and subscription contract as well as a complete transaction history of all the promotion activity mailed to him.

The company file contains a set of records by parent company, including subsidiaries, nature of business and Standard Industry Code. The group file is used to track corporate or group subscriptions. A group contact is listed as well as payment instructions.

The system's flexibility in accessing information is provided by linking those three files together. For example, a manager can ask the system to identify where a particular subscriber works. On the flip side, a manager can ask for the names of all employees at a specific company who have a subscription.

Graham cited another example of the flexibility that the DBMS will provide. With the new system, the circula-



Business Week's fulfillment data can be accessed through three computer files linked together on the DBMS. The linked files contain data about individual subscribers, where they work, and about group or bulk subscriptions. The remaining, unlinked files contain the parameters and tables that drive the system, report formats, and activities in process.

Having overcome at least in part the shock of steep increases in the price of paper, publishers are now having to deal with a serious paper shortage. Fifteen publishing and paper executives reveal their survival tactics.

The paper chase

By Diane Reese
Associate Editor

Through a combination of planning, juggling, creativity and flexibility, most publishers have found a way to survive the current paper crunch. While they are coping with steep price hikes—a 12 percent to 15 percent price increase is expected for 1985—they are more concerned with availability. They can live with price hikes—ad sales growth eases that burden—but they cannot live without paper.

Now, 18 months into the tight market that caught many by surprise, the panic has passed, but the situation remains delicate. Publishers *are* getting paper. And although they are sometimes getting it on a wish and a prayer, the presses are still rolling. However, any glitch—a paper machine breakdown, a rail car delay, a union job slowdown—can wreck the balance. Some publishers are teetering closer to crisis than others. Generally, those who were caught with depleted supplies and who reacted too slowly have been hurt the most.

But on the whole, publishers have not been forced to make dramatic concessions. They are not turning away business or cutting back growth. Many have gone abroad for paper, but many others have not yet been pushed that far. They are playing it close, having to keep inventories lower than is comfortable. They track their paper's comings and goings to the minute and the mile because there is little margin for error. Expensive trucking substitutes for slower rail carriage at times. Close calls and horror stories abound—paper is rushed in one door and magazines emerge from the other. Yet publishers are making it. And many feel the breathing will come easier next year.

"Overall we've been very fortunate. We haven't been out of paper for any publication; we haven't missed any dates," says David Mayer, special projects director at Harcourt Brace Jovanovich. "But it's been very tight. Our inventories are small and have been, but at least we're coming through."

Mayer, who buys mostly 38-pound to 50-pound coated stock and deals primarily through merchants, echoes the experience of several other large publishers who spoke with cautious optimism—afraid to sound as if their success in the paper chase has been unearned or easy. Some said they were better off this time mainly because they learned valuable lessons from the last big crunch that peaked in 1979-1980.

"We're in a little better condition than we were in the '79 crunch," says Irving Herschbein, director of manufacturing and distribution for Conde Nast Publications Inc. "We began to see what was happening and took immediate steps. We didn't waste time hoping it would go away."

Herschbein's company eats up 96,000 tons of coated groundwood a year, and although he is supplying it through his regular sources, he says there is never a dull moment.

"I've been doing this almost like a vaudeville act. One paper mill said that the year only had 11 months. They simply wiped out one month. Another mill is running six weeks late, which is the same as saying we lost a month and a half—and I doubt if we'll ever see that paper. Two mills have shorted us on a percentage basis . . . everybody's got a different way of accounting for the shortfalls," he declares.

The mills—running full speed 24 hours a day, seven days a week—are operating at 100 percent capacity now. Using data supplied by the mills for the first six months of 1984, the American Paper Institute (API) estimates that domestic shipments of coated groundwood and freesheet totaled 6,251,000 tons in all of 1984. That is nearly 200,000 tons more than the mills said they could produce at the start of the year, indicating that they "found more productivity" than originally anticipated, according to API.

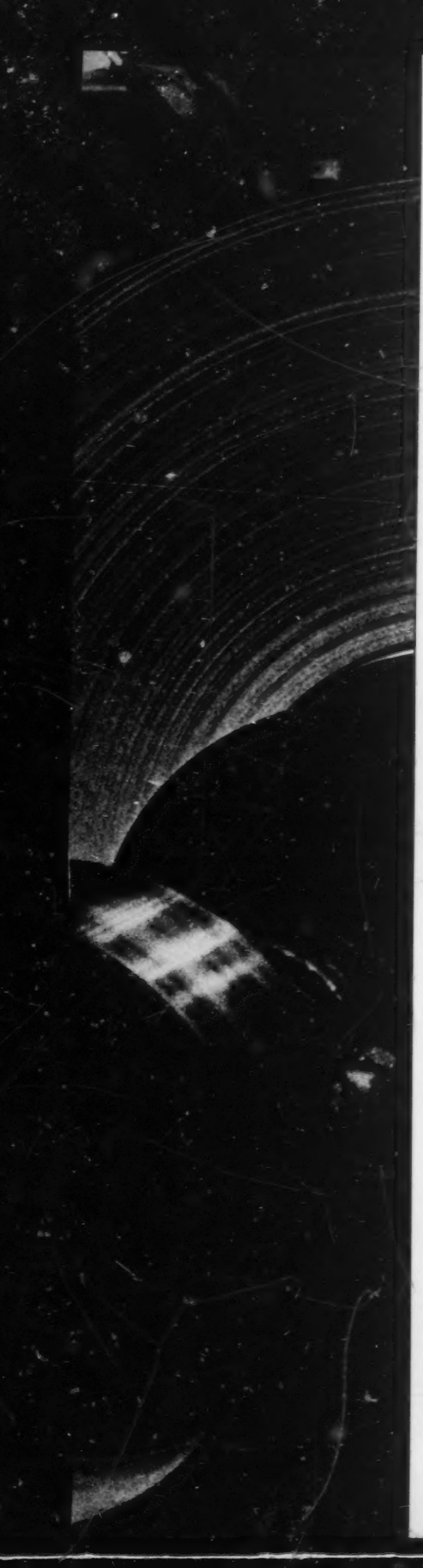
But it is not enough to keep up with demand—deliveries are arriving anywhere from three to eight weeks late, buyers say, and foreign imports are flowing in to quench the thirst for more coated white paper. With no U.S. mills planning substantial increases in coated-paper-making capacity for next year, relief is not certain anytime soon.

Three situations, three solutions

How publishers secure paper—directly from mills, through merchants, or from printers—mirrors their market power and colors their options for scaring up paper in a tight market. Times Mirror Magazines, publisher of *Ski*, *Popular Science* and others, buys the bulk of its 24,000 tons yearly from mills. The crunch caught them off guard.

"Like all publishers, we had tried to reduce our inventory levels during the soft market because that was also a period of very high interest rates," explains Gertrud Borchardt, director of manufacturing. "Overall, the paper we ordered in 1983 was less than we used in '83 because we were using up old inventory. When the tightness started in July, we were cut back to levels of orders for that year, which meant we really had a shortfall."

Borchardt went to the foreign markets, buying about 20 percent of her tonnage, mainly from Italy and Germany, at stiff 25 percent to 30 percent premiums. She said the quality is not al-



ways consistent and delivery times are longer, but at least she can get paper.

Los Angeles Magazine has its paper supplied through its printer, R.R. Donnelley & Sons Company, one of the largest magazine printers in the country. When the crunch came, Larry L. Clay, the magazine's production director, decided to switch from printing on a combination of 43-pound and 50-pound coated groundwood to straight 45-pound in order to save money. "To date we have never experienced a problem of availability," he says. "The big problem is in the price increases."

With many mills setting allocations based on 1983 orders from publishers, a new or quickly growing magazine may have to work extra hard to get paper to support its growth because its allocation history is disproportionately low. *American Health*, which vaulted to an 800,000 circulation in only two years of existence, had to pass up the security of a contract with its merchant because the merchant was willing to guarantee only 85 percent of the magazine's paper needs, according to Richard Muehleman, the magazine's production director at the time.

Muehleman felt he needed the flexibility to query other sources, and for more than 15 percent of his paper supply, in order to be an attractive risk to suppliers. He refused the contract offer but kept the relationship intact. And by selling the magazine's growth potential, he succeeded in lining up a second merchant as well.

These magazine publishers, varying in size and situation, solved their paper shortages in differing ways—through mills, merchants, and printers. Like the major publishing houses, they leaned on established relationships with their suppliers and left no source unconsidered in attempting to secure paper.

While opinions vary as to who has it easier in this paper dearth—the Time Inc.s and McGraw Hills who can throw their market weight around and demand fulfillment of their contract tonnage, or the small magazines whose needs are unlikely to break a supplier—no one disagrees that the shortage is genuine and severe.

What's a publisher to do?

Paper-buying executives, many of whom have long experience dealing with shortages, say they can resort to a limited set of tactics for finding paper: They look for new suppliers, pressure their old source for more paper, juggle the types of paper used, and save paper any way possible. This shortage presents the same options. The key to successful paper hunting? Speed, they say.

"We acted swiftly to scour the country, find out where paper might be available—merchants, printers, whomever," explains an executive at a large trade publishing company buying over 40,000 tons a year. "We exercised our buying leverage and went beyond normal sources, and we acted early to secure extra tonnage from our regular sources."

Was it necessary to make compromises? "No foreign, no substitutions, no use of more expensive paper," he states.

"When we began to sense something was up, we moved quickly, opened up other paper mills, took on other suppliers as needed, took on more tonnage from mills that could increase it with us," seconds Conde Nast's Herschbein. "We started early enough before it got too tight. You couldn't do that now."

"Publishers have not been forced to make dramatic concessions. They are not turning away business or cutting back growth. Many have gone abroad for paper, but many others have not."

Although a large company such as Conde Nast obviously has pull with suppliers, such companies also can be hampered by bureaucracy that prevents swift action. This red tape needs to be cut during a crunch crisis, says one paper manager: "You need someone managing the paper operations who has the support of the company, the authority to go do whatever is necessary, quickly."

Going abroad for paper

Because of the backlog at domestic mills, many publishers turned to foreign markets to pick up the slack. By August of this year, 175,000 to 200,000 tons of coated paper had been imported to the United States, with the bulk being sent by Germany, Italy and Finland, according to John P. Clifford, chairman and chief operating officer of Clayton International, a paper merchant. The API estimates that 316,000 tons of coated groundwood and freesheet will come in from abroad during 1984—nearly double what was imported last year.

In many cases, that foreign paper is carrying a hefty price— for example, about $1,000 a ton, compared to domestic 34-pound coated stock, which costs about $880 a ton, according to the *Pulp*

and Paper PriceBook. But publishers who have direct contacts with foreign mills say they are paying no more than domestic prices for their foreign stock.

"We imported paper back in the mid-seventies, and we kept those contacts alive throughout the intervening years," says James Lesac, corporate director of purchasing at Meredith Publishing Corp., which is buying from 15 percent to 20 percent of its paper abroad. "If you buy on a direct basis from a mill, then because of our strong dollar, it's below domestic prices. However, if you go through brokers—and they've sprung up like wild weeds in this tight market—then by the time you've put on all the markups, people have paid as much as $150 to $200 premiums per ton," he reports.

Borchardt at Times Mirror says she is considering establishing long-term ties with some foreign mills to provide a stable supply source for the next time the U.S. paper market shrinks. Indeed, the foreign suppliers have begun demanding such commitments from their American buyers, according to R.R. Donnelley.

"Paper on a rail car when it is due at the printer qualifies as a crisis, publishers agree. Average rail travel time can be cut to under a week by using trucks, but high cost makes trucking a solution only for desperate times."

Donnelley supplies paper on slightly more than half the magazines it prints, and Robert Myers, senior vice president, claims that the company has been able to take care of old customers and provide paper for new business without fail, primarily by increases in tonnage allotments from domestic producers and a "significant" amount of paper from overseas.

"We previously bought foreign paper on a piecemeal basis during shortages. Now we're making longer-term commitments, so we're not kissing them in the evening and leaving them in the morning," Myers explains. "Frankly, it's at their insistence. They can drive a harder bargain now because the situation is so tight here." The foreign mills generally are demanding that American buyers sign a three-year contract, according to Myers.

But erratic delivery performance from foreign suppliers has kept some publishers who had considered going abroad at home. "I can't find anyone that can guarantee any kind of delivery. Delivery is whenever it gets here. That makes it difficult to plan, so I've stayed away," declares one paper buyer.

'Feverish trucking' for emergencies

Paper on a rail car when it is due at the printer qualifies as a crisis, publishers agree. Average rail travel time of two to three weeks can be cut to under a week by using trucks, but the high cost makes trucking a solution only for desperate times. "There's a lot of major publishers that for the last year have been trucking paper feverishly . . . because they let their inventories run down," confides a production executive at a large weekly magazine that has not yet had to engage in the practice.

John Child, manager of manufacturing finance at *U.S. News & World Report*, agrees: "If there's a production problem at a mill and it slips two weeks, a year ago we'd have said 'Fine, ship whenever.' Today I am so tight that it literally will have to be put on a truck and rushed directly to the plant to get it there in time for printing. There's no fat in the inventory."

Substitutions limited

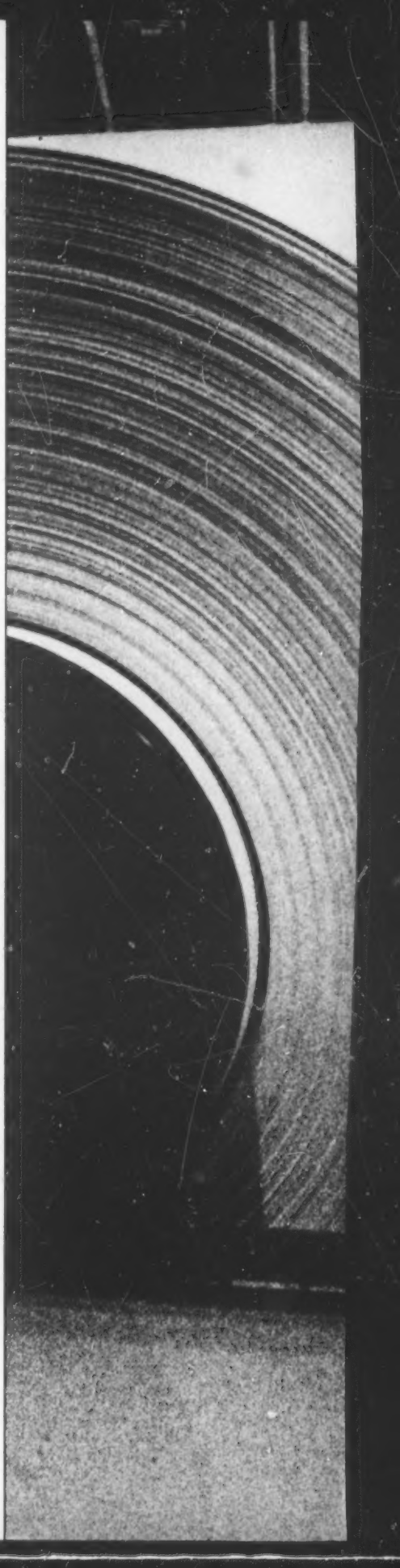
Number 5 coated paper is short throughout the entire range of lightweight coated stocks, paper buyers say, but few have made dramatic shifts to very heavy or lower quality paper for part or whole issues. Some slight shifting is occurring on a spot basis—usually substituting a weight or two higher, it appears.

"If we were printing on 40-pound, we in some issues may have had to go to 60-pound because that's what was available," says HBJ's Mayer, speaking of the last shortage. "Now we're just printing a couple on 45-pound from 40, which is no big change."

Mayer also tried moving some publications down from 40-pound to 38-pound in an effort to increase yield—the number of feet on a roll—because HBJ's allotments from the mills were based on weight, rather than on linear feet. "It becomes somewhat of a moot point because the mills haven't been able to keep up their deliveries, so it hasn't seemed to work too well for us," he acknowledges.

In some cases publishers have gone to more expensive grades of coated paper, called freesheet because it contains no groundwood, but even that availability is starting to tighten, buyers point out.

The publishing industry has waged a vendetta against paper waste



over the past several years. Printers have been pushed to new standards of efficiency in paper usage and percent of waste has been cut from the low twenties to the low teens, according to one production executive. With paper tight, publishers are again scrutinizing waste.

Times Mirror instituted an underconsumption incentive program for its printer as a direct result of the paper crunch. The company set 1983's paper consumption as a benchmark, and any cost savings generated by using less paper is shared equally with the printer—a system in use by many large publishers.

At *Los Angeles Magazine*, the drop to a lower basis weight (from 50-pound to 45-pound) that was prompted by higher paper prices has meant that production quality must be more carefully checked.

"We're looking for tighter quality control from our printer—maximum efficiency, less spoilage, better pressmanship—and that has a definite effect on manufacturing," says Clay, the production director.

Careful tracking a must

Many of the production executives contacted by FOLIO said they were devoting more time to monitoring both their paper's whereabouts and the paper market's signals. With inventories cut to the bone and the threat of running out of paper ever present, there is simply no padding in schedules and little time to be searching for after-the-fact alternative sources, they say. Paper managers must know where their paper is, and where they can get backup in an emergency.

"We have a department doing nothing but tracking orders, pleading with the paper mills. We all spend a lot of time with the paper people to make sure nothing happens that we're not aware of," explains Herschbein. After the last shortage, he added more people to the manufacturing staff, thus providing more eyes to watch the paper business.

Joel Reiss, assistant director for material at *Newsweek*, says that, because their inventories are below what they consider a favorable level, they have to monitor more closely how they allocate paper among the various printing plants. "What helps is our computer system that keeps track of paper from purchase order through waste management," he says.

At *Los Angeles Magazine*, which buys its paper through its printer, the paper crunch "put a fire" under a decision to computerize their paper tracking procedures, the production director says. He augmented the magazine's IBM System 34 with IBM PCs. Now all paper costs and projections will be done on the computer, instead of by hand, Clay explains, and he hopes that will give him more control over his paper.

"I question how effective my input is now because I'm basing my knowledge on my supplier's knowledge," he observes. "The end user has the final say so, but in order to manipulate information and gear it to the publisher's eyes—that's one of the incentives for getting paper onto a computer. It's easily accessible, easily manipulated.

"A well-informed history, a track record on order, usage, efficiencies of your printer, when orders are received, what qualities are received—to have that at one's finger tips is about as close to a crystal ball as you can get," Clay remarks.

When asked what they did to cope with the tight paper situation, production executives, merchants and printers consistently said they went to the people with whom they always dealt and asked for help. They leaned on relationships, buyers said, and asked suppliers to somehow find the paper—knowing that the market will eventually turn around and suppliers will lean on them to buy during slow times.

"Juggling paper to meet press deadlines—among publications for a multititle publisher and among customers for merchants, printers and mills—is sometimes necessary now. Publishers are even willing to come to each other's rescue in an emergency."

"There's really nothing more we can do than continually chase our suppliers to make good and give us as much as they possibly can," says Herschbein." I always kid my friends in the paper business. I say, 'Well, now remember, in a couple of years it'll be your turn to buy lunch.'"

Newsweek's Reiss emphasizes that the paper industry is tightly knit, and personal ties count plenty: "The publishers that do shop around in soft markets for bargains are very well known to the paper companies, and they're having problems. Paper companies have long memories."

Leonard Pinto, vice president and general manager of Davis Publications,

says his company is not merely "coping," its needs are being met by the firm's regular merchants and printers even though Davis had a recent startup, *Sylvia Porter's Personal Finance Magazine*. That required a paper commitment that grew from 250,000 copies in December 1983 to over 700,000 copies by mid-1984, and the printer came through with the stock, according to Pinto.

"We never helter-skelter about to try to save a few bucks and disrupt the relationships we've had for years," he says. "Because of that, we've found that, in times of stress, that really comes to the fore."

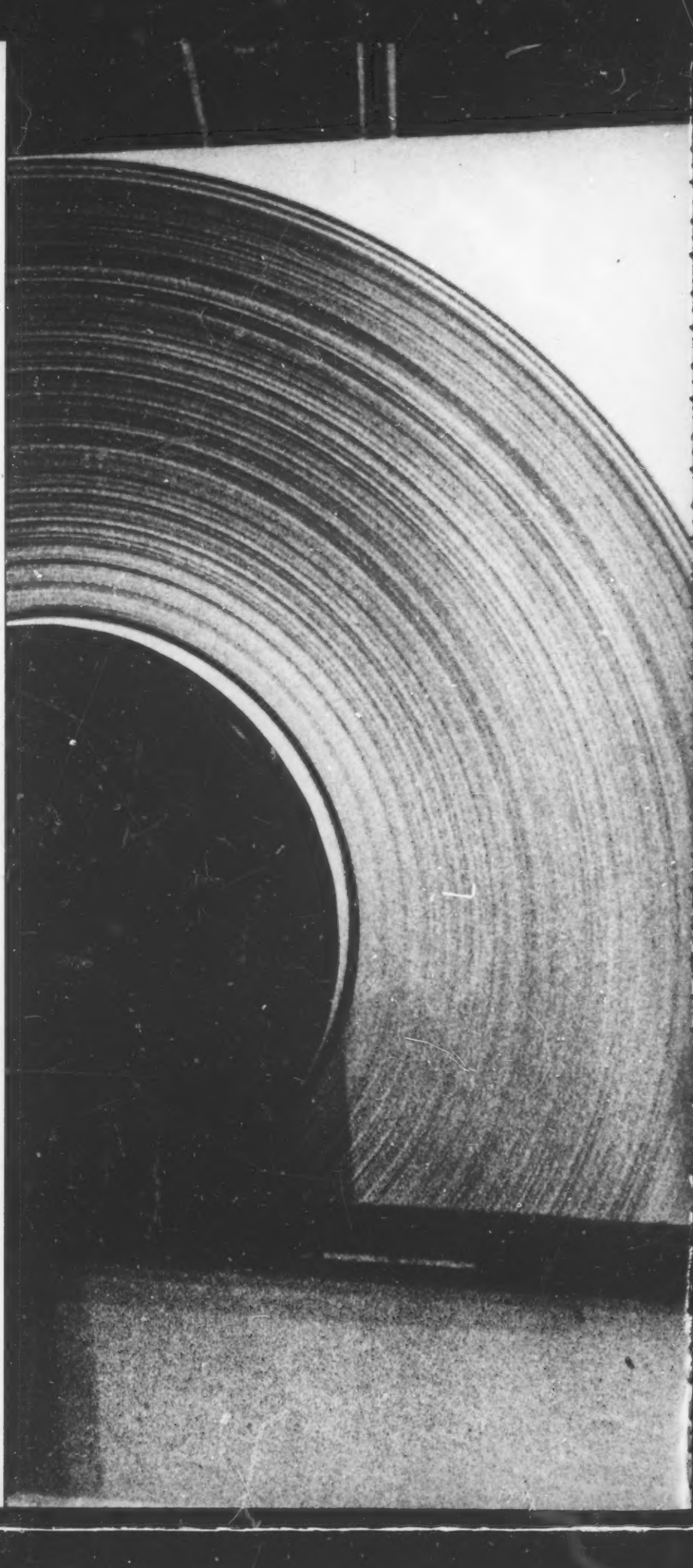
Shopping for bargains during a soft market was unanimously seen as dangerous by the production executives who spoke to FOLIO, but even legitimate shopping—to upgrade quality, for example—must be tempered by consideration of the repercussion during a squeeze, according to *Los Angeles Magazine*'s Clay.

"When the market got soft, we were looking very seriously at trying to improve quality without dramatically increasing cost because that was a viable alternative at the time. It would have been shortsighted if we hadn't looked at other mills and other stocks," he asserts. But they conducted the search through their printer, looking at different mills and vendors, "recognizing that our current relationship with that printer was a valuable relationship in a time such as we're having now," Clay points out.

The art of juggling

Juggling paper to meet press deadlines—among publications for a multititle publisher and among customers for merchants, printers and mills—is sometimes necessary now, publishers and suppliers say. Although mills theoretically treat all customers the same, cutting them all proportionately and delivering equally late to all, they do make exceptions. "It goes without saying that if a customer doesn't have paper to meet a press date, we'll try very hard to meet their press," says Ted Robinson vice president and general manager, printing paper division of St. Regis.

Publishers are even willing to come to each other's rescue in an emergency. John Romeo, director of production at *Forbes*, tells of receiving an S.O.S. call from the giant Conde Nast on one occasion, and he says he was able to help. Myers at R.R. Donnelley reports that they have at times substituted paper that belongs to one publisher to meet another's press run. "Usually that's worked out between two publishers," he says. "If they have the same paper and the same roll size and



one guy is really in trouble, he'll call the other and say 'Hey, we need a thousand tons. Can I have it? I'll pay you back next week.'"

Brokers can be indispensable during a tight market, many paper buyers say. Child of *U.S.News* buys 25,000 tons of paper directly from six mills, with the exception of one brand that he buys through a broker because he considers that contact a valuable source of information about the market.

The merchants have also been crucial because they can juggle around their paper allotments, almost on a weekly basis, to satisfy their customers' press needs. "That's how everybody is coping," says one user of merchants.

Some publishing observers say that a magazine whose printer is supplying the paper is free from the constant haggling and worry of getting paper. But a manufacturing executive at a large publisher buying directly from mills notes that he has the benefit of control over his paper stream. A publisher relying on printers is leaving his "destiny in the printer's hand," he says.

Clay at *Los Angeles Magazine* agrees that, for the publisher whose paper source is his printer, the hassles do not go away.

"When you're not supplying your own stock, the problem is to be certain that your printer, or your broker, is really looking out for your best interest. Can I rely on them to look for alternative stock, different vendors, different merchants to supply our needs?" he asks.

What publishers are not doing, they claim, is turning away advertising or tampering with their editorial content to shorten issues and save paper. They are not shelving special issues or annuals, although many agree it is a poor time to launch a new magazine. Most

Some easing in paper market foreseen

Publishers and suppliers are wary about predicting what will happen in the paper market. Opinions differ over how much longer supplies will be tight or when prices will level off. A study by Strategic Futures Inc., a market research firm, forecasts a shortfall of 550,000 tons of publication grade paper in 1985, representing a 6 percent oversold position for domestic mills. But several paper buyers said they thought the shortfall would be only about half that amount.

Many experts contacted by FOLIO also say they detect some easing in the market, and their expectations for 1985 are that it is not going to get worse, and may even get better.

"To some degree, there is an easing—and I expect by January we'll see a little more as the mills resolve some of their problems and get to a higher level of productivity and get up to speed," observes HBJ's Mayer. "I've gotten calls in the last couple of weeks from some spot people, saying that there is a little spot tonnage available," he adds.

"I believe it's starting to get a little better," agrees Rick Irwin, senior vice president, general manager, publications division of Gould Paper Corp. "Those six-week dates are starting to improve slightly—you've got to use the word slightly."

"I think perhaps we're getting used to it a little bit, but I don't see it easing," counters Child of *U.S.News*.

Clayton International's Clifford estimates that if the paper industry could provide 10 percent to 15 percent more coated groundwood, it could be easily sold. But publishers need that capacity now. One mill, Consolidated Papers Inc., announced that it had received board approval to add a new lightweight coated paper machine; International Paper said it planned to add 350,000 to 400,000 tons of coated paper capacity over the next "several years," and speculation was high that several others would announce shortly. Some minor additions to capacity should be available in 1985 from upgrading of old machines, but probably no substantial new tonnage will be available until 1987, industry watchers predict.

The question of what will happen to the catalog and insert marketers who have "intruded" on the magazine publishers' coated paper domain also breeds speculation. While some sources say these users are relying heavily on foreign imports and will be unable to continue paying the high prices, others say that catalogs are here to stay and must be accommodated. Whatever the catalogs' fate, most publishers predict a coated paper shortage until the economy slows.

"The only thing that can change the current tight marketplace for the foreseeable future—I'm not sure what that means anymore, probably the next two to three years—is a major recession," asserts Clifford, who predicts about a million tons of capacity will come on line from 1986 to 1988. "Everything is in place for demand to continue to exceed supply. If the current economy stays stable, growing at some 3 percent to 5 percent a year, then even an increased capacity of one million tons should be basically absorbed through 1988."

publishers who had special requirements this year—such as *Sports Illustrated*'s 534-page Olympic issue, or the *Forbes* 500 issue, which it spun off as a separate publication—said they had planned well ahead to assure paper supply.

"In 1983 we too were part of the trend in cutting back inventories," says Romeo of *Forbes*. "Back in April and May of '83 I was quite concerned about our new books coming out in '84. But I notified my suppliers that no matter what I cut in early '83, I would take it all plus more by year end." Romeo had to find paper not only for the *Forbes* 500, but also for the second annual *Forbes* 400 issue and a 27th regular issue of the magazine. He succeeded, but he had to resort to buying German and Italian paper, he admits.

Cutting trim size is another paper-saving option—but many publishers say they did that even before the paper crunch as a general economizing move, not only to save paper but also to cut freight and postage costs and to keep their publications in line with competitors.

"We generally followed the trade in cutting trim size," explains Lesac of Meredith. "A customer may advertise in a number of different magazines, so the original materials that he provides are probably the same whether

Prices for no. 5 coated groundwood—average price in U.S. dollars/ton

Source: St. Regis Corp.

*Pulp and Paper Week

Publishers caught off guard with precariously low inventories

When the paper crunch hit in July 1983, many publishers were caught unprotected and with precariously low inventories. The resultant scramble for reinforcements was a familiar one—a scramble reinacted every few years as business swings through its inevitable cycles.

How did publishers get into this paper bind? A soft market, followed by a stunningly fast turnaround, caught both users and suppliers off guard, according to publishers and paper suppliers.

The softness was evident by 1982, when a sputtering economy and high interest rates sent demand for paper spiraling downward. Rather than tie up millions in inventory, publishers drew down their paper stock, keeping as little as one month's supply, instead of a safe two months for monthlies and six weeks for weeklies, according to manufacturing executives. It was a buyer's market; all a publisher had to do to get paper in a hurry was pick up a phone and call his mill or merchant.

"Publishers were using the paper machine as their inventory," says John P. Clifford, chairman and chief operating officer at Clayton International, a paper merchant. "They could get paper within literally a week, three weeks at the top."

While the publishers enjoyed their advantage, the mills suffered. Some mills, down to an operating rate of 85 percent, found themselves forced to take downtime in early 1983. They shipped paper to publishers early and shipped more than was requested. In April 1983 they went to discounting, with the major mills cutting prices by at least 5 percent. In an effort to drum up business and keep the paper machines running, mills went outside their steady customers to find new sources of business.

July 1983: It hit

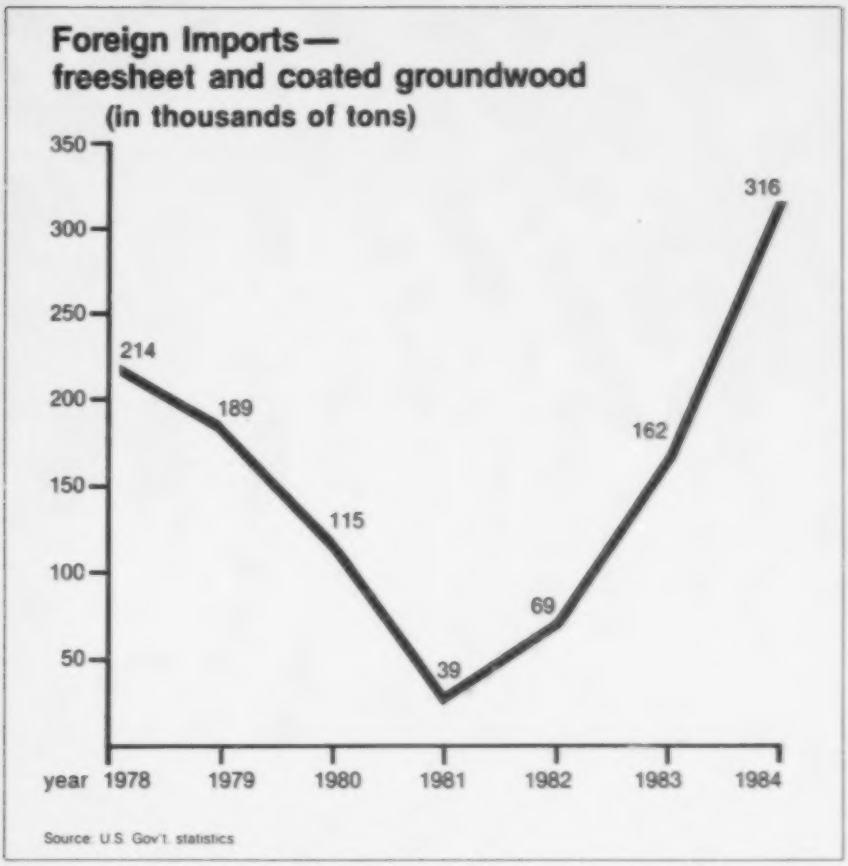
A soft paper market inevitably ends, publishers say. But when the pendulum swings, it usually swings gradually; this time it swooped to the side of the mills.

"We came back from the Fourth of July weekend and we were on allocations," says Rick Irwin, general manager, publications paper division, at Gould Paper Corp., a merchant. Suddenly the publishers calling for paper shipments were told it would be six weeks before a delivery could arrive. The market ricocheted from surplus to shortage practically overnight, and publishers rushed to place orders to prevent being locked out completely. The mills were swamped.

"At a time when we were short orders, we had been doing everything we could to find places for the tonnage we had," explains Ted Robinson, vice president and general manager, printing paper division of St. Regis, a leading producer of coated paper. "So there were commitments made when there was a shortage of orders, and those commitments had to be honored also. It got us into an oversold position very fast. And that's true of all mills in the coated paper grades."

"The unique part of this shortage is the way it turned in a 30-day period," comments John Child, manager of manufacturing finance at *U.S. News & World Report*. "It's kind of like being in a movie theater and one person yells 'fire.' Everybody tried to get out at the same time. The exits can't let so many people through." The attitude became "I'm going to get mine," he says, as publishers immediately tried to increase their tonnage and allocations.

Some of it was insurance buy-



they go into our magazine or one of our competitors' magazines. When magazines establish size, it's generally comparable throughout the industry."

The use of supercalendar—uncoated paper that goes through a final heated press, making it slightly more light-reflecting than straight uncoated—is being avoided by publishers much more during this shortage.

Richard Serafin, corporate production director at Time Inc., says his company used supercalendar in the last shortage in the "current form"—the latest pages printed in its weeklies, and at the time done only in black-and-white and two color.

"Now our book has changed so we're printing in four color in current form. This wouldn't be a good practice on supercalendar, so when the market changed we tried to make sure we didn't have to do that again," Serafin says.

It is not only the production limitations presented by supercalendar that have kept publishers from using it, but also the "cheap" image it gives to magazines. Times Mirror used it to fill in the backs of publications during the last squeeze, Borchardt says, but this time they are steering clear.

"Over the years we tried to change the image of magazines where we had used it in the past—improve quality, eliminate a number of mail-

ing. "It was like during the gas shortage. Everybody lined up to keep their tanks full," adds David Hewitt, executive vice president of Dartmouth Printing Company.

The mills, pressed for deliveries, responded by cutting allocations across the board (Boise Cascade was one of the first, cutting all customers to 89 percent of their contractual quotas), by eliminating a month's orders, or by simply falling behind on deliveries.

"By the time the mills could gear up and get their production up to normal levels, they were 20 to 30 days behind and the demand was so great, they just weren't able to get caught up," explains James Lesac, corporate director of purchasing at Meredith Publishing Corporation.

With the increased demand came price hikes: After two quarters of discounted prices, October 1983 brought an increase that set prices back up to their prediscount levels. Where the summer had seen 34-pound groundwood selling for $730 a ton, by the fourth quarter it was over $780—a hike of nearly 7 percent. Since then prices have risen about 6.5 percent in January of this year and another 6 percent in July.

The sudden tightness is not without its logical explanations. Several market forces converged to cause the run up in demand that summer: Most often cited by industry sources are the influx of catalogs and newspaper inserts being printed on number 5 coated groundwood; new startups, especially computer magazines; and the hefty increase in advertising pages placed as advertisers came around to believing that the economy was truly expanding. The need for publishers to rebuild depleted paper inventories to support the increased advertising pages, the threat of strikes by union workers at mills, and the demand for coated paper generated by the Olympics and the Presidential election were also noted by paper experts.

Catalogs and newspaper inserts—what publishers like to call "interlopers"—are the most consistent competitors for coated paper. Where magazines used to command the coated paper market, accounting for an estimated 90 percent of that paper usage, their share has now fallen to about 55 percent, according to Clayton's Clifford. Catalogs now claim 25 percent to 30 percent of that paper.

"That market has grown tremendously. I've talked to a number of printers who last year had nothing of that business because the company didn't exist, and this year they're buying 40,000 tons of paper," comments Gertrud Borchardt, director of manufacturing at Times Mirror. "If you multiply that by a number of companies, that has to account for a large portion of the shortfall."

"The insert business has gone from what was in round numbers some 25,000 tons in demand two years ago to what is now almost not calculable—it could be 400,000 tons of demand. There's no way to put a finger on it," says Clifford.

As confidence in the economy began to solidify in mid-1983, publishers point out, advertisers began funneling dollars into print schedules, adding impetus to the paper crunch. Whereas ad pages had risen by 5.3 percent in the first half of 1983, according to Publishers Information Bureau, by year end pages were up 9.4 percent and revenue for the year had jumped 16.6 percent. That momentum has held steady in 1984: Ad pages were up another 8.4 percent for the first six months of this year.

order ads," she explains. "So we really didn't want to bring supercalendar back into the picture." Instead she has gone to higher weight and higher priced paper at times, making the cost impact of this shortage "much worse," she adds.

And too, supercalendar is in short supply in its own right—what is available is mostly foreign, and that is being siphoned off by the catalog and insert market, sources say.

How this shortage differs

Although publishers say they are coping with the crunch, few downplay the severity of this shortage compared to others.

"The 1979 market was a false market. The paper companies were gauging," claims Anthony Fioravanti, paper manager for the New York Times Magazine Group. "If you wanted to pay the price, you got paper. When the market is tight, money does not buy paper." Fioravanti says that there is simply no spare paper, even for a price, in this market.

Most paper buyers agree that the suddenness of this crunch differentiates it from previous ones. As late as early July 1983, experts were forecasting a continuation of the soft market, asserts one manufacturing director, and then a week later the market constricted drastically. The St. Regis executive admits that his company failed to call the crunch.

"We were predicting oversupply of coated paper all the way through 1985, into 1986," he says. "Then in six weeks it turned around to a shortfall and it's been that way ever since. We totally mispredicted it coming."

A paper buyer offers evidence that the shortage is a true one: "In June of 1983, before the tightness developed, paper companies went forth with the option to continue the price discounts," remarks *Newsweek*'s Reiss. "You can bet your bottom dollar they would not have continued the discounts if they expected the market to tighten." As it was, the mills had to wait until the fourth quarter before taking their contractually allowed price hikes.

Yet the rumblings of a potential disaster could be heard if buyers were paying close attention, say some publishers who were listening, and it gave them a crucial head start.

"Part of my knowledge may be because I was buying and researching a large order of paper for our Olympics issue," says Clay, speaking of the 1.5 million pounds of coated paper he needed for *Los Angeles Magazine*'s special guide to the Olympics. "Looking at it as a spot buy made me aware that there wasn't five hundred thousand pounds of this paper lying around anywhere."

Clay says that in January 1983 when he first began the process, availability was no problem, but by April he saw signs of the crunch. He signed a contract just as the market started to tighten, knowing a decision had to be made.

"It was like a thunder storm in the Mojave Desert. You could see the clouds coming, but only if you were looking up at the sky," he observes.

Large publishers are generally covered, but paper buyers caught without a contract or an allotment through a merchant have been virtually shut out of the market, sources say.□

Coated paper supply

Demand/projections (000)

U.S. capacity (opt/max)	1985	1986
Coated (freesheet and groundwood)	6,257	6,351
U.S. demand		
Coated (freesheet and groundwood)	6,290	6,295

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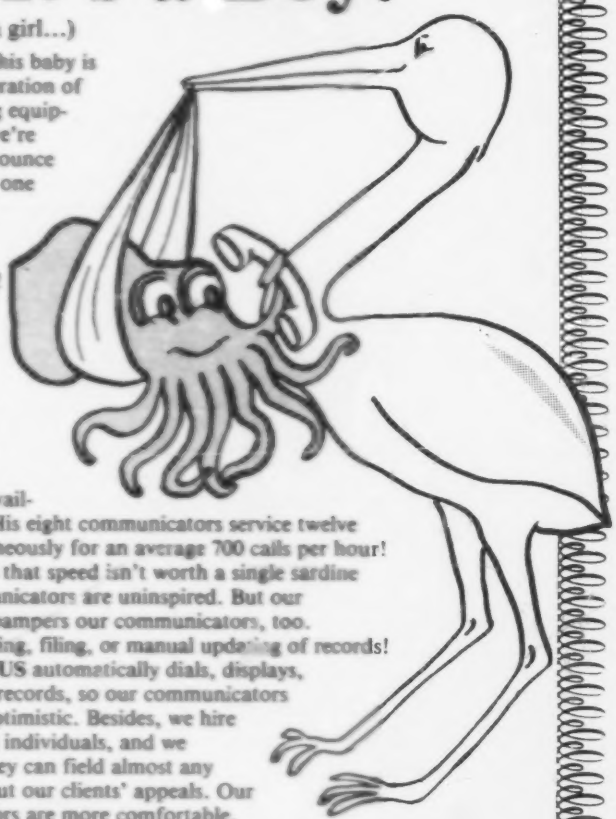

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